Questions and Answers on the "Food and Agriculture Risk Management for the 21st Century" Act (FARM 21)

RISK MANAGEMENT ACCOUNTS

1. **Q: How does a Farmer Risk Management Account work?** A Risk Management Account or RMA allows farmers to weather the ups and downs of agriculture, purchase crop and revenue insurance, invest in rural enterprises that boost farm income, and plan for the future. In particular, account funds could be used in years when a farmer's income drops below 95% of their average income for the past 5 years. Some subsidized farmers would receive an annual government contribution to their accounts to build up balances and ease the transition away from traditional subsidies.

2. **Q: Who can establish an account?** Any farmer or rancher – regardless of what they grow - can establish an account, but only farmers who have historically received subsidies can get a government contribution to their account as a transition from the federal subsidy program, and only for a limited period.

3. **Q: What determines how much (if anything) the government will contribute?** Current subsidy recipients are eligible for government contributions to their account. Under the Kind-Flake-Crowley-Reichert proposal, a farmer would be required to place an increasingly larger share of his direct payment into his account between 2008 and 2014. Under the Lugar proposal payments would cease in 2013.

4. **Q: Would dairy farmers continue to receive support?** Under the proposal, farmers would receive up to 90 percent of the payments they received between 2003 and 2007, with half placed in a risk management account and half being immediately available to the farmer.

5. **Q: When can a farmer withdraw money? How much can a farmer withdraw?** Farmers can withdraw enough funds in years when their adjusted gross revenue is less than 95 percent of their 5-year average adjusted gross revenue to bring their income up to that average level. Farmers can also withdraw funds to purchase crop and revenue insurance. Also, farmers can once every five years withdraw up to 10 percent of their account balance to invest in rural enterprises that boost farm income. Additional withdrawals will be allowed to keep farms solvent and those criteria will be developed by USDA.

6. **Q: Can farmers withdraw Risk Management Account balances to cover their revenue and crop insurance premiums?** Yes.

7. **Q: What happens to a RMA balance when a farmer stops farming?** The farmer can sell the balance of the RMA to the farmer who buys his farm, provided the land will continue to be used for agriculture, or the farmers can transfer the balance of the RMA into a traditional IRA.

8. **Q: Who will hold the account?** The account will be held jointly by the USDA, a qualified financial institution, and the farm.

9. **Q: Can farmers contribute their own money? How much?** Farmers are not required to make contributions, but a farm family can contribute up to $8,000 annually to their Risk Management Account, which is identical to the current limit for traditional IRAs. All farmers and ranchers who do not receive subsidies can also set up their own accounts and make contributions but will not receive a government contribution.

10. **Q: How will farmers obtain loans to cover planting costs?** FARM-21 replaces loan deficiency payments with a recourse loan program that USDA would make available to all producers previously eligible for marketing loans. Recourse loans would be available to cover planting and other costs.

11. **Q: What happens to an RMA when the farmer retires?** When the farmer retires, the RMA is rolled over into a traditional IRA that would continue to provide income.

12. **Q: Can the farmer sell their RMA?** A farmer can sell all or part of their RMA to another person or partnership who buys their land, so long as that person is actively engaged in agriculture on the purchased acres.

13. **Q: What about new farmers?** Under the House proposal, new farmers who purchase farmland with 'base' acres are eligible for the declining direct payments. After 2014, however, those government contributions would not continue. In the Senate payments would not extend past 2013.

14. **Q: How does this fit together with crop and revenue insurance?** Subsidized farmers are increasingly purchasing government subsidized crop and revenue insurance. Today, 70 to 90 percent of commodity crop acres are covered by an insurance policy, and farmers are increasingly purchasing policies that cover 80 to 90 percent of their average revenue. Risk Management Accounts will complement existing insurance by covering the "shallow" losses not covered by other insurance policies held by the farmer, completing crop and revenue policies that cover "deeper" losses.

15. **Q: How would Risk Management Accounts work for farms owned by a partnership?** The principal operator would hold the RMA in his name and only they and their spouse could make voluntary contributions to the account. If the farm was sold, the proceeds of the RMA account balance would be split up based on the ownership interest of the partners.

16. **Q: How many landowners collect a direct payment from land that is not used for farming?** The Washington Post has reported that since 2000 more than $1.3 billion in direct payments have gone to landowners who do no farming at all. Under the proposal, the FARM-21 Act would deny direct payments to landowners who are not actively engaged in farming or who do not share in the risk of farming.

17. **Q: Will the government contribution be larger if farmers are good stewards of their land?** Under the Lugar proposal, all farmers – including unsubsidized farmers and ranchers would eligible for a stewardship payment linked to an index of environmental performance and gross sales. Under the Kind-Flake-Crowley-Reichert proposal, a portion of a farmer's direct payment would be linked to an index of environmental performance. The government payment will increase based on how comprehensively farmers are adopting very basic levels of stewardship across their whole farm through practices such as integrated pest management, advanced nutrient management and other common environmental practices.

18. **How does the gradual transition away from the current system of farm subsidies occur?** Under the Kind-Flake-Crowley-Reichert proposal, counter-cyclical payments would continue through 2009 and direct payments would continue until 2014. By 2014, farmers are expected to have built up multi-billion dollar balances in their Risk Management Accounts, making continued government supported contributions unnecessary. Under the Lugar proposal, the current system of farm subsidies would continue one year and then be replaced with transition payments until 2013.

19. **Q: How is this different from the 1996 'Freedom to Farm' Farm Bill?** These reforms and the agricultural climate in which they are being proposed are dramatically different. First, government support of the commodity markets through biofuels incentives have driven farm wealth and commodity prices to record levels for most major commodities and prices are expected to stay at record levels through the life of the next Farm Bill and beyond. Second, whereas the 1996 law proposed eliminating subsidies entirely, and Congress subsequently enacted almost yearly ad-hoc disaster assistance, the reforms proposed in these proposals gradually replace traditional subsidies with a safety net that will ensure that farmer's have built up a buffer to protect against market declines. Third, 70 to 90 percent of commodity crop acres are now covered by an insurance policy, and farmers are increasingly purchasing policies that cover 80 to 90 percent of their average revenue. Risk Management Accounts will complement existing insurance by covering the "shallow" losses not covered by other insurance policies held by the farmer.

GENERAL QUESTIONS

1. **Q: What does FARM-21 do?** FARM-21 would make a gradual transition from our current system of farm subsidies – counter-cyclical, loan deficiency, income loss, and direct payments – to a more cost-effective and responsive system of farmer-held risk management accounts and revenue insurance tools. This transition would provide a less expensive farmer safety net, freeing up precious resources for deficit reduction and other national farm bill priorities like nutrition, health, renewable energy, conservation and international development assistance initiatives.

2. **Q: When does the current farm bill expire?** September 30, 2007.

3. **Q: Would this legislation help reduce the deficit?** Yes, this legislation proposes to reduce the deficit by $4.4 billion between 2008 and 2012 and by more than $20 billion over ten years.

4. **Q: How does the Act help bring prices for sugar closer to prices paid in the rest of the world?** Reforms would provide significant benefits to American consumers by ending the federal sugar loan program and by lifting prohibitive barriers to international sugar imports.

5. **Q: Will the Act help fruit and vegetable farmers?** Yes, fruit, vegetable and other 'specialty' crop farmers will receive many benefits from the reforms proposed in the Act. Increasing EQIP funding to up to $2.2 billion per year provides more money to help manage irrigation systems, water, and waste and for farmers to get assistance to apply nutrients and manage pests with greater efficiency. The Fruit and Vegetable Snack Program which provides free, healthy snacks to school children would be expanded to more than 5,000 schools nationwide. Farm to School and Farmers Market Promotion programs would receive additional funding and trade organizations are provided with additional resources to promote good nutrition through increased consumption of fruits and vegetables.

6. **Q: Will the wealthiest 2.3 percent of wage-earning Americans continue to receive hundreds of millions in farm subsidies?** No. Continued "counter-cyclical" and other payments will be subject to tight payment caps, and under the Kind-Flake-Crowley-Reichert proposal only farmers with adjusted gross income of less than $200,000 would be eligible under these reforms.

7. **Q: How does the Act link crop subsidies to environmental stewardship?** Under the Lugar proposal, all farmers and ranchers would eligible for a stewardship payment linked to an index of environmental performance and gross sales. Under the House proposal, a portion of a farmer's direct payment would be link to an index of environmental performance.

8. **Q: Will the Act increase fruit and vegetable planting and drive prices down for current specialty crop farmers?** The planting restriction that prevents recipients of farm subsidies

from planting specialty crops would be lifted. Under the proposals, an increasing share of a farmer's direct payment, which decline over time, would be placed in a risk management account subject to strict limits on withdrawal, so they would not be able to use these payments to purchase additional land on which to grow specialty crops.

The adverse ruling in the WTO cotton dispute also necessitates a removal of these restrictions to become trade compliant. The USDA's Economic Research Service published a study entitled "Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets Be Affected?" last November. In general, the report found that market disruptions would likely be small.

9. **Q: Would rural areas benefit from this legislation?** Yes. The FARM-21 Act would provide unprecedented investment in rural America. In particular, the FARM-21 Act would provide more than $700 million over 5 years in new money to support our rural communities. Also, farmers are allowed once every five years to withdraw up to 10% of their Risk Management Account balances to invest in rural enterprises that contribute to the agricultural economy. Rural communities would also benefit from expanded funding for renewable energy projects and healthy foods initiatives.

10. **Q: Will the Act help small farmers?** Yes. The Act will help all farmers, regardless of what they grow, how much they grow, or where they live. All farmers – regardless of size or crop – are eligible for the conservation and renewable energy initiatives included in the Act. In addition, traditional subsidies drive up land costs, making it harder for small and medium-sized farmers to compete with their larger neighbors. A transition to risk management accounts will help stabilize soaring land costs. Traditional subsidies are linked to production, so large producers collect a larger share. A transition to risk management accounts would create a level playing for the first time in the history of Farm Policy.

11. **Q: Will the Act help all regions?** Yes. Since traditional subsidies are tied to the production of certain crops, 22 primarily Midwestern districts (out of 435) collect roughly half of all farm spending. Some large farm states, including Florida, New York and Pennsylvania, collect less farm spending than some congressional districts. By contrast, conservation and renewable energy funds flow to all farmers regardless of crop, so the Act will help more farmers, ranches and forest landowners in more parts of the nation.

CONSERVATION

Q: How does the Act reward farmers when they provide clean air and water, healthy soil and abundant wildlife? The Act expands conservation program funding by more than $6 billion over 5 years, including the expansion of the EQIP program to more than $2 billion annually and programs to protect millions of wetland, farm, forest and ranch acres from sprawl.

Q: What is EQIP? EQIP or the Environmental Quality Incentives Program, is America's most popular conservation program but is heavily over-subscribed with thousands of farmers being turned away from efforts to benefit the environment because past resources have been inadequate. EQIP helps farmers cover the costs of adopting hundreds of different practices to manage nutrients more effectively, adopt integrated pest management, conserve water, improve water quality, manage manure, benefit air quality, and an enormous diversity of other beneficial actions.

Q: Does the Act expand efforts to conserve and restore our nation's wetlands?
A: Yes. The Act provides new authorization to annually restore 300,000 acres of wetlands.

Q. How does the Act protect farmland from sprawl?
A: The Act provides significant new funds through the Farm and Ranchland Protection Program and the Grasslands Reserve Program to protect millions of acres of farmland and rangeland from sprawl through the purchase of development rights and other easements from voluntary land owners.

Q: How does the Act reward stewardship of private forest lands?
A: The Act provides secure funding for the Healthy Forests Reserve Program by shifting its budget to the Commodity Credit Corporation account. The Healthy Forests Reserve Program provides cost-share assistance to private forest landowners for forest management practices that improve water quality and wildlife habitat and that control invasive species.

Q: How does the Act help rare species?
The Act expands the Wildlife Habitat Incentives Program which funds efforts by landowners to help rare, threatened, or endangered species as well as more common wildlife.

Q: Do increases in conservation, nutrition, and renewable energy spending affect our existing treaty obligations? No. Conservation, nutrition and renewable energy initiatives do not count against a cap on trade-distorting subsidies set by a 1994 World Trade Organization treaty. For this reason, the Act will not invite retaliatory tariffs against our exports and will instead pump more money into our rural economies and produce a host of benefits for farmers, consumers, and the environment.

Q: Why should Congress boost programs to reward farmers who improve water quality?
A: Agriculture can contribute to diminished water quality. It is estimated that one-third of America's river miles, 45 percent of America's lakes, and 44 percent of America's bays still fail to meet water quality standards. In particular, fertilizers contribute to growth, death and decomposition of algae, a process that robs rivers, lakes and bays of the oxygen aquatic life need to survive. Soil erosion from farmland can also reduce water clarity – blocking the sunlight aquatic plants need to grow – and burying aquatic organisms and their habitat with sediment. Expanding EQIP funding as proposed could significantly reduce the pollution in farmland runoff.

Q: Why should Congress boost programs to provide wildlife habitat?
A: Farms, ranches and private forest lands also provide important habitat for wildlife, including most rare species. Fishing, hunting and other types of outdoor recreation generate millions of jobs, primarily in rural counties. Managing farms, ranches and forest lands to create habitat for wildlife – and protecting farmland from sprawl – is critical to rural economic development based upon hunting and fishing.

Q: Why should Congress boost programs to protect farm, ranch and forest lands from sprawl?
A: Millions of acres of farmland are under pressure from urban sprawl, including the lands that produce 80% of America's fresh fruit and vegetables. Sprawl not only threatens our food supplies, but also produces a host of other social, economic and environmental challenges, including new air quality challenges.

RENEWABLE ENERGY

Q: How does the Act boost funding for renewable energy development?
A: The Act expands and improves two programs that provide grants, loans and loan guarantees to farmers to develop wind, solar, biogas, and other sources of energy on their farms, and to farmer-owned cooperatives and businesses developing larger scale bio-fuel refineries meeting environmental goals. The Act provides up to $275 million per year for these programs, section 9003 and 9006 of the Farm Security and Rural Investment Act of 2002.

Q: Is renewable energy research important to be able to produce 'cellulosic' energy?
A: More research is essential to develop new technologies that allow farmers to tap into the energy stored in plant cellulose and other tissues. The Lugar Proposal provides nearly $1 billion in research funding to help convert the abundant supply of crop waste, grass and wood waste into a renewable energy source and a new commodity for our farmers, ranchers, and forest landowners.

Q: Will this bill help reduce energy prices?
A: The energy investments in the bill will not reduce the price at the pump next week or next year. But, the energy provisions in the Act are part of a broader effort, taking place in Washington and in our state capitals, to dramatically expand our ability to produce renewable energy on farms and to reduce our dependence on foreign sources of fossil fuels. The next Farm Bill is a chance to increase our investment in energy production on farms, especially the production bio-fuels from crop wastes, wood waste, switchgrass, and other feed stocks, to dramatically increase the energy efficiency of our farms, and to produce energy on farms in ways that also meet our environmental challenges.

Q: How does the Act promote energy development in ways that meet the needs of the environment?
A: The sponsors of the Act recognize that farm-based energy can pose new environmental challenges. Air and water quality benefits and costs can vary depending upon the type of feedstock, how the feed stock is grown, and the fuel source used to power the refinery. To encourage the development of energy sources that meet environmental goals, the Act establishes environmental goals to rank applications for grants and loan guarantees to farmer-owned cooperatives and business developing bio-fuels and directs the USDA to develop these goals with other experts.

Q: How does the Act address growing pressure to convert grasslands to grow corn for ethanol?
A: The Act provides grants and loan guarantees to farmer-owned cooperatives and businesses to develop bio-fuels, and permits cooperatives and businesses to use these funds to contract with nearby feedstock producers. The bill also increases the amount of land that can be enrolled into the Grasslands Reserve Program and could not be converted to grow row crops.

Q: Why should Congress boost programs to promote renewable energy development on farms?
A: Rising energy costs impact all Americans, especially farmers. Farmers are eager to help reduce our dependence on foreign sources of energy and could provide a significant share of America's fuel needs with appropriate investments. Although the Energy Bill's incentives have spurred private investment into corn ethanol refineries, relatively little investment is being made in other bio-fuels and on farm energy sources

Q: Does the Act support efforts to collect methane, a potent greenhouse gas released in cattle manure?
A: Yes. The Act prioritizes energy projects that help produce the biggest greenhouse gas emission reductions, improve water quality and create wildlife habitat. Methane digesters allow farmers to capture methane emitted from animal waste and turn it into a valuable energy source they can use for farm operations or use to generate electricity to sell back to the utility grid. The Act provides up to $75 million in annual funding for methane digesters and other biorefineries.

NUTRITION

Q: Why should Congress boost programs to promote healthy food choices?
A: Health care costs are soaring, and the primary reason is the rise of chronic diseases related to poor diets, including cardiovascular diseases and diabetes. The U.S. Surgeon General estimates that our unhealthy diets increase annual health care costs by more than $100 billion. Farm policies and programs cannot tell people what to eat, but our policies and programs could do much more to promote healthy diets and eating habits and to reduce rates of obesity. Although the farm bill provides significant resources for food assistance for hungry Americans, the farm bill provides virtually no support for efforts to provide Americans with healthier food choices, such as fruits and vegetables.

Q: How does the Act boost funding for healthy food choices?
A: The Act expands healthy food choices by linking farmers with consumers through farmers markets and farm-to-cafeteria initiatives, expands a fruit and vegetable snack program to 5000 schools, and provides schools with funds to purchase fresh fruits and vegetables. Up to $30 million annually is provided to help low income communities develop better access to healthy foods.

Q: Why are programs like Food Stamps funded through the Farm Bill?
A: Farm bills have linked food production with access to sufficient, healthy food. Thus, the food stamp program and other nutrition programs are funded in the same legislative package as programs ensuring a stable food supply.

Q: Why does Nutrition constitute such a large portion of Farm Bill spending?
A: Most nutrition programs are open to all who qualify, and must grow with the need for them.

Q: Do these programs meet current need?
A: No. Only a fraction of families who are eligible for food stamps are currently enrolled. Vouchers for nutrition programs for seniors provide only meager support. Clearly, these programs are in need of the new funding identified in the Act.

TRADE

Q: How does the Act affect our existing trade commitments?
A: Some of our farm programs violate a 1994 agreement ratified by Congress that limits certain kinds of trade distorting subsidies. A transition to Risk Management Accounts would help bring our safety net for farmers into compliance with this agreement and would head off further WTO suits and potential retaliatory tariffs against other U.S. exports because the accounts would count as a 'green box' program instead of 'amber,' which is the most trade-distorting category of subsidies.

Q: How does the Act affect the DOHA round of trade negotiations?
A: By reducing the cost of 'amber box' crop subsidy programs, this legislation gives the U.S. more leverage to jump start negotiations that would open new markets to our farmers.